

# **A NEW OPPORTUNITY AGENDA FOR HIGHER EDUCATION: MAKING CRITICAL INVESTMENTS IN EDUCATION AND TRAINING JANUARY 20, 2000**

Today, the President will announce that his FY2001 budget will include new critical investments in higher education, training, and youth opportunities as part of his New Opportunity Agenda. These initiatives include:

- A \$30 Billion College Opportunity Tax Cut to provide Tax Relief for Millions of Families Struggling to Make College More Affordable.
- Nearly \$1 Billion for College Completion Challenge Grants, Pell Grants, and Other Initiatives to Help Students Afford and Be Able to Stay in School.
- Over \$400 Million in Increases in Initiatives to Keep Young People on the Track to Success.

## **I. COLLEGE OPPORTUNITY TAX CUT TO MAKE COLLEGE MORE AFFORDABLE FOR MORE AMERICANS**

The President will propose a College Opportunity Tax Cut costing \$30 billion over 10 years to provide tax relief for millions of families struggling to make college more affordable. When fully phased in, the President's proposal would give families the option to claim a tax deduction or a tax credit on up to \$10,000 of tuition and fees for any post-secondary education including college, graduate study, or training courses. In general, the proposal would provide up to \$2,800 annually in tax relief per family. In order to expand this tax cut to more families, the College Opportunity Tax Cut would phase out for married filers with incomes between \$100,000 and \$120,000. The College Opportunity Tax Cut builds on the Lifetime Learning tax credit that the President signed into law in 1997. In addition, the President's FY2001 budget contains other education tax incentives that were originally proposed in the FY2000 budget, including \$1 billion over 10 years to provide tax-free treatment for employer-provided graduate education and increased deductibility of student loan interest.

## **II. NEARLY \$1 BILLION IN INCREASES TO PELL GRANTS, SEOG, WORK STUDY, AND THE NEW COLLEGE COMPLETION AND DUAL DEGREE INITIATIVES:**

- College Completion Challenge Grants. The FY2001 budget creates a new initiative within the TRIO program called College Completion Challenge Grants (CCCCG). Although college enrollment rates have risen, 37 percent of students that go on to post-secondary school drop out before they get a certificate or a degree [Source: U.S. Department of Education, The Condition of Education: 1999]. The problem is especially acute for minorities: 29 percent of

African Americans and 31 percent of Hispanics drop out of college after less than one year, compared to 18 percent of whites. The CCCG program is designed to address this problem with a comprehensive approach including pre-freshman summer programs, support services and increased grant aid to students. This \$35 million initiative will improve the chances of success for nearly 18,000 students.

- Dual Degree Programs for Minority-Serving Institutions. The FY 2001 budget proposes a new program to increase opportunities for students at minority-serving institutions that offer four-year degrees. Students would receive two degrees within five years: one from a minority-serving institution, and one from a partner institution in a field in which minorities are underrepresented. This new \$40 million program will serve an estimated 3,000 students.

- Pell Grants. The Pell Grant program provides grants to economically disadvantaged young people to help pay the cost of a postsecondary education. The maximum Pell Grant in FY2000 is \$3,300. The President's FY2001 budget increases the maximum to \$3,500, more than 50 percent larger than the maximum grant in 1993, to make a college education more affordable for the nearly 4 million Pell Grant recipients. Funding for the Pell Grant program is increased by over \$716 million, bringing the total Pell Grant appropriation to \$8.356 billion.

- SEOG. SEOG, the Federal Supplemental Educational Opportunity Grant program, provides campus-based grant assistance to needy undergraduate students. Generally, this program supplements the aid students receive from other sources, and leverages institutional aid by at least one dollar for every three federal dollars. The FY2001 budget provides \$691 million for SEOG, a \$60 million increase, the largest increase in 10 years. An estimated 1.2 million students (over 60,000 more than in 2000) will receive awards in 2001.

- Work-Study. Work-Study provides students the opportunity to work their way through college. The FY 2000 budget achieved the goal of giving one million students the opportunity to participate in Work-Study. The FY2001 budget includes \$1.011 billion for Work-Study, an increase of \$77 million to continue this commitment to serve one million students.

### **III. OVER \$400 MILLION IN INCREASES TO KEEP YOUNG PEOPLE ON THE TRACK TO SUCCESS**

- GEAR UP. GEAR UP is a nationwide initiative to encourage more disadvantaged young people to have high expectations, stay in school, study hard, and take the right courses to go to and succeed in college. GEAR UP is funded at \$200 million in FY 2000, enough to provide services to over 750,000 students. The FY 2001 budget provides a 62.5% increase to \$325 million, enough to provide services to 1.4 million students.

- TRIO. The TRIO programs seek to motivate and prepare students to go to and stay in college. The FY 2001 budget provides \$725 million for TRIO, an increase of \$80 million to help provide assistance to over 760,000 students, 37,000 more than in 2000.

- Youth Opportunity Grants and Youth Training Formula Grants. Youth Opportunity Grants are an initiative to provide comprehensive employment and training assistance to all out-

of-school young people in high poverty areas. The program was passed as part of the bipartisan Workforce Investment Act and is a critical component of the New Markets Initiative. Funded at \$250 million in FY 2000, this program would serve up to 50,000 of the most disadvantaged young people in central cities and rural communities across America. The President's FY2001 budget provides a 50 percent increase in funding to \$375 million, enough to serve an additional 25,000 youth in high poverty areas. In addition, the FY2001 budget provides a \$25 million increase (from \$1.001 billion to \$1.022), to the Youth Training Formula Grants, enough to provide job training and summer job opportunities to nearly 600,000 disadvantaged young people.

- **Youthbuild.** The Youthbuild program, is targeted to 16-24 year old high school dropouts, and provides disadvantaged young adults with education and employment skills through rehabilitating and building housing for low-income and homeless people. The program also helps to expand the supply of housing in these categories. Funded at \$42.5 million, the Youthbuild programs will provides opportunities for approximately 2,000 trainees in 2000. The FY2001 increases funding by 76% to \$75 million, enough to serve approximately 3,330 trainees.

- **Job Corps.** Job Corps is the nation's largest and most comprehensive residential education and job training program targeted at impoverished young people. The FY2001 budget increases Job Corps funding by \$33 million, bringing the total Job Corps budget to \$1.392 billion.

## **COLLEGE OPPORTUNITY TAX CUT: PROVIDING TAX INCENTIVES TO MAKE HIGHER EDUCATION MORE AFFORDABLE January 20, 2000**

### **Investing \$30 Billion in a College Opportunity Tax Cut**

Since 1993 the President has taken numerous steps to make college more affordable and accessible, including direct student loans, Pell Grant increases, and the Hope Scholarship and the Lifetime Learning tax credits producing the biggest expansion in college support since the GI bill. But tuition costs continue to rise and many students and their families are still struggling to make ends meet. That is why today the President will propose the College Opportunity Tax Cut that will, when fully phased in, provide up to \$2,800 in tax relief for students or their families. The President's proposal would cost \$30 billion over 10 years.

### **How the College Opportunity Tax Cut Works**

The President's proposal would help make college, graduate school, and job training more affordable for millions of families—including expanding the tax cut and making it available to more families. In general, the proposal would provide up to \$2,800 annually in tax relief per family.

- Providing a Deduction or 28 Percent Tax Credit for Higher Education. The President's proposal would give families the option of taking a tax deduction or claiming a 28 percent credit for tuition and fees to pay for college and other higher education. The proposal would cover up to \$5,000 of educational expenses in 2001 and 2002 and rise to \$10,000 of educational expenses from 2003 forward. When fully phased in, this proposal would provide up to \$2,800 in tax relief annually to help American families pay for college.

- The College Opportunity Tax Cut Would Cover College, Graduate Work, or Job Training. Students or families could use the College Opportunity Tax Cut to help pay for college, graduate work, or courses taken to enhance job skills. There is no limit to the number of years that a taxpayer could take this credit, although when fully phased in it is limited to \$10,000 in educational expenses per family per year. A family could choose between the Hope Scholarship or the College Opportunity Tax Cut, but could not take both for the same student.

- Expanding the Tax Cut to More Families. The College Opportunity Tax Cut would phase out for individuals with incomes between \$50,000 and \$60,000 and married filers with incomes between \$100,000 and \$120,000. This is higher than the income thresholds for any of the education tax cuts currently available.

### **What the College Opportunity Tax Cut Would Mean for Typical Families**

- A Family Sends a Child to College. A family sends a child to a four-year college. The tuition costs the family \$11,000 after financial aid. The College Opportunity Tax Cut would generally provide a tax break of \$2,800 annually to offset the cost of tuition. (This example is based on the fully phased in proposal.)

- An Automobile Mechanic Takes Night Classes in Computers at a local Technical College. She will pay tuition of \$1,200. The College Opportunity Tax Cut would generally provide a tax break of \$336 to offset the cost of tuition.

- A Homemaker Joins a Graduate Teacher Training Program. After being out of college for 20 years, a homemaker enters a graduate teacher training program with tuition of \$4,000. The College Opportunity Tax Cut would generally provide a tax break of \$1,120 to offset the cost of tuition.

- A Family Plans for Its Education. The combination of the existing Hope Scholarship and the proposed College Opportunity Tax Cut provides a powerful way for a family to plan for its education. Each member of a family of four is pursuing higher education. The father is working on a masters degree part-time; the mother, a computer technician, is attending a two-year program at a local community college; the daughter is a senior in high school who eventually hopes to go on to medical school; and the son is a freshman at a small private college and plans to earn a master's degree to become a teacher. Based on typical tuition expenses incurred for these programs, a combination of Hope Scholarships and the new College Opportunity Tax Cut would generally reduce this family's Federal income taxes by \$28,000 over the nine years its members attend school, or an average of over \$3,000 per year.

## **THE PRESIDENT'S NEW PROPOSAL BUILDS ON HIS PREVIOUS STEPS TO MAKE COLLEGE MORE AFFORDABLE**

Since 1993, President Clinton has been dedicated to expanding access to education and training beyond high school. New and expanded programs provide over \$50 billion in student aid annually— compared to \$22 billion when he took office.

- Hope Scholarship and Lifetime Learning Tax Credit. In 1997, the President signed the Hope Scholarship and Lifetime Learning Tax Credit into law. In 1999, these two measures provided an estimated \$3.5 billion in tax relief for 4.8 million families.

- Hope Scholarship. The Hope Scholarship is part of the President's goal to make the first two years of college as universal as high school. It provides a tax credit worth up to \$1,500 per student against educational expenses for the first 2 years of college. (The credit provides a tax break of 100 percent of the first \$1,000 of tuition and 50 percent of the next \$1,000.) Both the Hope Scholarship and the Lifetime Learning tax credit phase out for individuals with incomes between \$40,000 and \$50,000 and married filers with incomes between \$80,000 and \$10,000.

- Lifetime Learning Tax Credit. The President's proposed College Opportunity Tax Cut builds on the Lifetime Learning tax credit. Under current law, the Lifetime Learning tax credit provides a 20 percent credit on educational expenses for college, graduate study, or job training. The credit covers up to \$5,000 of expenses per family through 2002 and then up to \$10,000 thereafter.

- More Affordable Student Loans. The President's Direct Lending Program and improvements to the student loan program have saved students an estimated \$8.7 billion on their loans over the last five years while taxpayers have saved over \$5 billion through student loan reform.

- \$8.7 Billion in Savings for Students. Students who borrowed student loans since 1993 will save \$100 annually for each \$10,000 in outstanding loans—and a total of \$5 billion—due to the lower interest rate formula. Also, in 1993, the Administration reduced loan origination fees, saving students nearly \$3.7 billion to date. In 1999, in recognition of widespread discounts available on guaranteed student loans, the Administration reduced direct loan fees even further.

- More Repayment Options. Since 1993, borrowers have more flexibility in managing their student loan debt. The income-contingent repayment plan allows direct loan borrowers to repay their loans based upon their income; after 25 years, any remaining loan balance is discharged.

- Creating the Direct Loan Program. Under the Direct Loan program, students receive loans directly from the Education Department rather than through government-guaranteed lenders. Because the Direct Loan program is substantially less expensive for taxpayers than the guaranteed loan program, taxpayers have saved over \$4 billion over the past five years. The program has pioneered the use of new technology, streamlined loan processing and disbursement, and improved customer service in both programs through competition.

- Strengthening the Guaranteed Loan Program. Federal subsidies for banks and guaranty agencies have been pared down, saving taxpayers \$1.6 billion over the past five years.
- Reducing Loan Defaults. The national cohort default rate has been reduced from 22.4 percent seven years ago to a record-low 8.8 percent. At the same time, collections on defaulted loans have more than doubled, from \$1 billion in FY1993 to \$2.2 billion in FY1998.
- Expanded Student Aid Opportunities.
  - Larger Pell Grant Awards For Needy Students. When President Clinton took office in 1993, the Pell Grant maximum award was \$2,300, the same as it was in 1989. The maximum award has since increased by 43 percent to \$3,300 in 2001. The FY 2001 budget proposes increase in the maximum to \$3,500, a 52 percent increase over the 1993 level.
  - Early Intervention to Help Low-income Students Prepare for College. Based on an Administration proposal, the new GEAR UP program funds partnerships between colleges and high-poverty middle schools. It was funded at \$200 million in FY2000. The President's FY2001 budget proposes to increase GEAR UP funding by 62.5 percent, bringing the total to \$325 million to fund mentoring, tutoring, and college scholarships for an estimated 1.4 million low-income students.
  - College Outreach and Support for Disadvantaged Students. The Department's TRIO programs help low-income, first-generation students succeed in college. Since 1993, funding for the program has increased from \$388 million to \$645 million; it now serves 730,000 students. The President's FY2001 budget proposes to expand TRIO by \$80 million, to serve additional 37,000 students.
  - More Work-Study Opportunities. Spending for Federal Work-Study increased by 41 percent from 1993 to 2000. The President has requested a \$77 million increase in FY2001 to continue to allow one million students to work their way through college.
  - AmeriCorps Education Awards. Since 1994, over 150,000 AmeriCorps volunteers have earned up to \$4,725 for college while serving local communities.
  - Enrollment Rates Have Risen Under President Clinton. The percentage of students who completed high school and went directly to college rose from 61.9 percent in 1992 to 67.0 percent in 1997 -- an 8 percent increase in the enrollment rate. Proportionately, enrollment rates increased even more for African Americans and Hispanics over this period. For African Americans, enrollment rates increased from 48.2 percent to 58.5 percent — a 21 percent increase. Over this period Hispanics enrollment rates increased from 55.0 percent to 65.6 percent — a 19 percent increase. [Source: U.S. Department of Education, The Condition of Education 1999]